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SUBJECT: ANGER OVER THAILAND'S EARLY HARVEST AGREEMENT FUELS FTA
PROTESTS

REF: 04 CHIANG MAI 00218

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Summary: The controversial 2003 Thai-Chinese "Early Harvest" agreement on fruits and vegetables became a whipping boy during anti-Free-Trade Agreement (FTA) demonstrations in Chiang Mai January 9-11, as protestors pointed to the Early Harvest agreement of the China-ASEAN FTA for proof of the negative effects of FTAs. In fact, although the country as a whole shows a growing overall trade surplus with China in agricultural products, northern Thai fruit and vegetable farmers have suffered huge losses in the wake of the agreement. End Summary.

The Thai-China Early Harvest agreement was an effort by the two governments to fast-track tariff reductions included in the China-ASEAN FTA negotiations. The six original countries of ASEAN began trade negotiations with China in November 2001, agreeing in November 2004 to reduce the tariffs for goods on the "Normal List" to zero in 2006.

Impatient with the pace of these talks, Thailand jumpstarted free trade with China by signing an "Early Harvest" agreement that reduced tariffs on Chapter 7 (Vegetables) and Chapter 8 (Fruits) to zero starting October 2003. (Reftel)

Since the new terms of trade went into effect, Thailand's trade surplus with China has grown, up more than 50% from 2003 to 2004 according to statistics from Thailand's Customs Department.

"It's been a loss for the Chinese," Chinese Consul General Peng Rendong told the U.S. ConGen, waving aside northern Thai perceptions to the contrary.

A breakdown of the trade statistics for Chapters 7 and 8 reveals that Thai farmers have indeed suffered tremendous losses since the reduction in tariffs. The trade balance is strongly in China's favor in 20 out of 28 product categories. Excluding the eight categories in which Thailand has seen more growth in exports than in imports leaves the country running a trade deficit with China that grew by 845% between 2003 and 2004 and supports northern Thai concern over the economic damage caused by cheaper produce flowing in from China.

The balance only swings in Thailand's favor when the eight remaining categories are taken into account, particularly tapioca, which accounts for more than 50% of total agricultural trade between the two countries. In 2004, Thailand exported 8.6 billion baht (\$215 million U.S.) of tapioca to China, up 59.1% from the previous year. Thai exports in the other 13 categories of vegetables barely reached 19 million baht (\$475,000 U.S.).

Take tapioca out of the equation and Thailand had a 2004 trade deficit with China in Chapter 7 of 1.4 billion baht (\$35 million U.S.), 72% larger than the previous year.

Thanks to Thailand's exotic fruits, the scales in fruit trade are more balanced. Since the Early Harvest agreement was signed, Chinese fruits have flooded into Thailand via the Mekong River port at Chiang Saen (the value of Chinese fruits imported to Thailand grew 142% 2003-2004 while Thai fruit exports to China grew only 78%). Chinese orange, grape, and apple growers are enjoying broader access to the Thai market; Thailand's trade deficit in these three categories was 2.3 billion baht (\$58 million U.S.) in 2004. But growers of Thai fruits such as longan, durian, mangosteen, and bananas have fought back with a 408% growth in exports of these fruits to China, bringing Thailand's trade surplus in these categories up to 1.5 billion baht (\$38 million U.S.). Thailand continues to run a slim trade surplus with China in fruits overall (230 million baht or \$5.8 million U.S. in 2004). Although end-of-year statistics for 2004 indicate that this surplus might be shrinking (down 33%), numbers for January-July 2005 show a 44% increase compared to the same period from 2004.

Without tapioca and exotic fruits, the Early Harvest agreement has been a disaster for Thai farmers, especially in the north. Removing those two categories to show how limited gains are, Thailand's 2004 Chapters 7 and 8 combined trade deficit was 2.6 billion baht (\$65 million U.S.), a gap 319% wider than the previous year. The depressing effect of cheap Chinese imports has been especially sharp in the cool-climate north. Data from the Office of Agricultural Economics show that in the pre- Early Harvest period the average price of dried garlic was 25.6 Baht per kilogram. After this agreement, the price fell to only 18.4 Baht per kilogram. The pre-agreement price for white onions was 8.2 Baht per kilogram, plummeting to 1.59 Baht per kilogram. The price of dried red onions dropped from 18.3 Baht per kilogram to only 9.0 Baht per kilogram.

The Ministry of Agriculture is struggling with limited success

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to get Thai vegetable farmers to move into production of more competitive fruits. According to Kasetsart University Economist Vinit Atisook, Thai farmers are skeptical of the government's ability to assist and are resistant to cultivating new plants. The Ministry of Agriculture has made subsidy loans to Thai agriculturists in failing sectors contingent on crop substitution. But so far participation in these programs has not enabled northern Thai farmers to compete successfully with China, with farmers insisting that the compensation is far too small to justify switching crops.

Comment: Northern Thai farmers look at the depressed prices for garlic and onions as a result of the Early Harvest agreement and conclude that they have nothing to gain from free trade agreements. This distrust in their own government was a major factor in swelling the protests during the sixth round of U.S.-Thai trade negotiations earlier this month.
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